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C O N F I D E N T I A L STATE 134076

FOLLOWING REPEAT MOSCOW 8594 ACTION SECSTATE INFO USDOC JUNE 6TH

QUOTE

C O N F I D E N T I A L MOSCOW 8594

E.O. 11652: GDS

TAGS: ESTC, ETRD, UR, US

SUBJECT: POSSIBLE NEW APPROACH ON LICENSING OF U.S. COMPUTER
SYSTEMS SOLD TO USSR

USDOC FOR BEWT/BOWDEN

1. SUMMARY. AT PRESENT, THERE ARE TWO COMPLETE U.S. COMPUTER
SYSTEMS UP AND RUNNING AT EXHIBITS IN MOSCOW, A UNIVAC 1106
AT THE SPERRY-RAND EXHIBIT AND AN IBM 370/145 AT THE "HEALTH-74"
EXHIBIT. THIS DEMONSTRATES GREAT AND GROWING INTEREST OF U.S.
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COMPUTER INDUSTRY IN SOVIET MARKET, AN INTEREST WHICH IS

RECIPROCATED ON SOVIET SIDE. ALTHOUGH EMBASSY DOES NOT HAVE COMPLETE RECORD OF COMPUTER SALES CURRENTLY UNDER NEGOTIATION, WE HAVE IMPRESSION THAT SALES OF U.S. COMPUTER EQUIPMENT TO USSR DURING NEXT 12 MONTHS COULD REACH \$100 MILLION IF EXPORT LICENSING SITUATION CAN BE IMPROVED. WHILE THIS FIGURE ONLY DROP IN BUCKET IN TERMS WORLD-WIDE SALES OF COMPUTER EQUIPMENT, IT DOES INDICATE EXTENT OF MARKET WHICH CAN BE DEVELOPED HERE IF WE ARE PREPARED ADJUST OUR PROCEDURES. IN EMBASSY'S VIEW, DEVELOPMENT OF OUR OVERALL RELATIONSHIP WITH USSR HAS REACHED POINT AT WHICH WE SHOULD CONSIDER POSSIBILITY OF REACHING SOME SORT OF GENERAL UNDERSTANDING WITH SOVIETS ON LICENSING OF U.S. COMPUTER SYSTEMS. WHAT WE HAVE IN MIND IS SOMETHING ALONG LINES OF 1965 FOWLER-DEBRE UNDERSTANDING ON COMPUTER SALES TO FRANCE. END SUMMARY.

2. ALL INDICATIONS POINT TO FACT THAT U.S. COMPUTER INDUSTRY HAS REACHED COLLECTIVE DECISION THAT USSR MARKET FOR COMPUTER SYSTEMS JUSTIFIES MAJOR EFFORT. TWO MAJOR COMPANIES, IBM AND HONEYWELL, HAVE RECEIVED PERMISSION FROM SOVIETS TO OPEN ACCREDITED OFFICES IN MOSCOW. A THIRD ACCREDITED COMPANY, HEWLETT-PACKARD, DERIVES MOST OF ITS TURNOVER HERE FROM SALES OF COMPUTER EQUIPMENT. CONTROL DATA HAS SOLD TWO SYSTEMS AND IS ACTIVELY SEEKING NEW SALES. BURROUGHS HAS JUST RECEIVED EXPORT LICENSE FOR ITS FIRST MAJOR SYSTEM SOLD TO SOVIETS AND SPERRY UNIVAC HAS UNDERTAKEN MAJOR MARKETING EFFORT WHICH WILL PROBABLY RESULT IN ORDER FOR FIRST SYSTEM FOR AEROFLOT RESERVATION SYSTEM

BEING PLACED SHORTLY. SEVERAL SMALLER FIRMS SUCH AS DIGITAL EQUIPMENT, DATA GENERAL AND ENTREKIN DIVISION OF CUTTLER-HAMMER ARE QUITE ACTIVE HERE, AS ARE COMPANIES PRODUCING SPECIALITY SYSTEMS SUCH AS RAYTHEON AND TEXAS INSTRUMENTS. TOTAL PICTURE IS ONE IN WHICH MOST OF THE MAJOR FACTORS IN THE COMPUTER INDUSTRY, FROM IBM ON DOWN, HAVE DECIDED TO DEVOTE CONSIDERABLE RESOURCES TO THE DEVELOPMENT OF SOVIET MARKET.

3. ALTHOUGH US COMPUTER MANUFACTURERS HAVE LONG BELIEVED THAT THEY HAD PROMISING MARKET HERE, THEIR SALES EFFORTS ONLY WENT INTO HIGH GEAR IN 1972 WHEN IMPROVEMENT IN OVERALL US-USSR RELATIONSHIP, HIGHLIGHTED BY MAY 1972 SUMMIT, CONFIDENTIAL

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GAVE THEM BASIS FOR HOPE THAT EXPORT LICENSES WOULD NOW BE ISSUED FOR TYPES OF SYSTEMS WHICH SOVIETS WISH TO BUY. ALTHOUGH SOME PROGRESS HAS BEEN MADE IN SPEEDING UP LICENSING PROCESS AND RAISING THE PERFORMANCE PARAMETERS WITHIN WHICH SYSTEMS CAN BE LICENSED FOR SALE TO SOVIETS, EXPORT LICENSING CONTINUES TO BE MAJOR PROBLEM FOR COMPANIES. IN OUR DISCUSSIONS WITH COMPANY REPRESENTATIVES, WE FIND THAT THEY FREQUENTLY FEEL THAT THEY HAVE BEEN GIVEN MISLEADING SIGNALS

FROM WASHINGTON, WHICH ENCOURAGED THEM TO SEEK BUSINESS HERE AND THEN RAISED OBSTACLES ON LICENSING FRONT. LONG DELAYS IN ISSUANCE OF LICENSES, SUCH AS CURRENT IBM CASE INVOLVING INTOURIST RESERVATION SYSTEM, PLACES COMPANIES IN DIFFICULT POSITION VIS-A-VIS SOVIETS. WHILE IBM OBVIOUSLY CAN AFFORD TO UNDERGO VERY LARGE EXPENSES INVOLVED IN PREPARATIONS FOR INSTALLATION AND START-UP OF SYSTEM WITHOUT FULL CERTAINTY THAT EXPORT LICENSES WILL EVENTUALLY BE ISSUED, THIS IS NOT NECESSARILY THE CASE WITH SMALLER, FINANCIALLY-WEAKER COMPANIES.

4. IN TERMS OF OUR OVERALL RELATIONSHIP WITH SOVIETS, EXPORT LICENSING PROBLEMS REPRESENT CONTINUING AND PAINFUL REMAINDER OF PAST. OUR EXPERIENCE WITH RECENT STANKI EXHIBITION, AT WHICH SOVIET ATTENTION FROM BREZHNEV ON DOWN WAS FOCUSED NOT ON EXHIBITION AS WHOLE BUT RATHER ON FOURTEEN EXHIBITED MACHINES REQUIRING VALIDATED LICENSES, WAS GOOD INDICATION OF IMPORTANCE WHICH SOVIET ATTACH TO THIS SUBJECT. AS MORE US COMPUTER SYSTEMS ARE SOLD TO SOVIETS, AND WE BELIEVE THIS WILL BE THE CASE, WE SEE REAL POSSIBILITY THAT WHAT SHOULD BE VERY FAVORABLE FACTOR IN DEVELOPMENT OF US-USSR COMMERCIAL RELATIONSHIP WILL IN FACT BECOME CONTENTIOUS ISSUE AS CONSEQUENCE OF LICENSING PROBLEMS. LOOKING AHEAD TO SEPTEMBER

1975 COMPUTER EXHIBITION IN MOSCOW, IN WHICH VERY LARGE US PARTICIPATION SEEMS ASSURED, WE SEE POSSIBILITY OF STANKI EXPERIENCE BEING REPEATED ON MUCH LARGER SCALE. SYSTEMOTEKHNIKA EXHIBITION SCHEDULED FOR LENINGRAD IN OCTOBER 1974 WILL INCLUDE ALL MAJOR US COMPUTER FIRMS AND LICENSING PROBLEMS WILL BE CONSIDERABLE.

5. ON BASIS ABOVE CONSIDERATIONS, EMBASSY BELIEVES THAT REEXAMINATION OF OUR
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PROCEDURES FOR LICENSING COMPUTER EXPORTS TO USSR MERITS SERIOUS CONSIDERATION. IN THIS CONNECTION, EXPERIENCE WITH FRANCE IN MID-1960'S APPEARS RELEVANT. IT IS OUR IMPRESSION THAT FOWLER-DEBRE UNDERSTANDING ACHIEVED AT THAT TIME ALLOWED CONTINUED SALES OF US COMPUTER SYSTEMS TO FRANCE WHILE ENSURING THAT NONE OF THIS EQUIPMENT WAS USED IN FRENCH NUCLEAR WEAPONS DEVELOPMENT. IN EMBASSY'S VIEW, A SIMILAR UNDERSTANDING WITH SOVIETS MIGHT HELP SIMPLIFY PROCESSING OF EXPORT APPLICATIONS. WE BELIEVE IT CONCEIVABLE THAT SOVIETS MAY BE PREPARED TO GIVE PLEDGE THAT NO COMPUTER EQUIPMENT, EITHER ENTIRE SYSTEMS OR PERIPHERALS, PURCHASED FROM US FIRMS WOULD BE USED IN MILITARY-RELATED APPLICATIONS. GIVEN PRACTICAL IMPOSSIBILITY OF VERIFYING END-USER INFORMATION REQUIRED (AND PROVIDED) UNDER CURRENT PROCEDURES, AN UNDERSTANDING OF THE TYPE PROPOSED WOULD NOT

EFFECTIVELY DIMINISH AND COULD WELL EXPAND NET FLOW OF INFORMATION
ON SOVIET UTILIZATION OF US-SUPPLIED ADP EQUIPMENT. FURTHER,
IT COULD HELP POINT UP NEW TYPE OF RELATIONSHIP BETWEEN TWO
COUNTRIES AND ATMOSPHERE OF CONFIDENCE WHICH HAS BEEN
DEVELOPING OVER LAST TWO YEARS.

EMBASSY THUS RECOMMENDS
THIS APPROACH BE EVALUATED BY DEPARTMENT AND OTHER INTERESTED
WASHINGTON AGENCIES. THIS PROPOSAL RELATES ONLY TO U.S.
LICENSING PROCEDURES AND WOULD HAVE NO IMPLICATIONS FOR OUR
OBLIGATION TO OBTAIN COCOM CLEARANCES ON COMPUTER EQUIPMENT
WHICH EXCEEDS COCOM CUT-OFFS.
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